

RECORDATION NO. 24213-C FILED

DEC 01 '04 12:02 PM

SURFACE TRANSPORTATION BOARD

OF COUNSEL
URBAN A. LESTER

ALVORD AND ALVORD
ATTORNEYS AT LAW
1050 SEVENTEENTH STREET, N.W.
SUITE 301
WASHINGTON, D.C.
20036
(202) 393-2266
FAX (202) 393-2156
E-MAIL alvordlaw@aol.com

ELIAS C. ALVORD (1942)
ELLSWORTH C. ALVORD (1964)

December 1, 2004

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a) are two (2) copies of a Rolling Stock Security Agreement, dated as of November 30, 2004, a secondary document as defined in the Board's Rules for the Recordation of Documents.

The enclosed document relates to the Security Agreement previously filed with the Board under Recordation Number 24213.

The name and address of the party to the enclosed document are:

Secured Party: Colorado Housing and Finance Authority
1981 Blake Street
Denver, Colorado 80202

Debtor: The Durango & Silverton Narrow Gauge
Railroad Company
479 Main Avenue
Durango, Colorado 81301

Mr. Vernon A. Williams
December 1, 2004
Page 2

is: A description of the railroad equipment covered by the enclosed document

Railway equipment set forth in the equipment schedule attached to the document.

A short summary of the document to appear in the index is:

Rolling Stock Security Agreement.

Also enclosed is a check in the amount of \$32.00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the undersigned.

Very truly yours,



Robert W. Alvord

RWA/anm
Enclosures

RECORDATION NO.

24213

FILED

Loan No. 321950
CHFA 2/02
B&I

DEC 01 '04

12:02 PM

SURFACE TRANSPORTATION BOARD

ROLLING STOCK SECURITY AGREEMENT

BETWEEN

DURANGO & SILVERTON NARROW GAUGE RAILROAD COMPANY,
a Colorado corporation

AS DEBTOR

AND

COLORADO HOUSING AND FINANCE AUTHORITY,
a body corporate and political subdivision of the State of Colorado

AS LENDER

DATED AS OF

November 30, 2004

Titled and recorded with the Surface Transportation Board pursuant to
49 U.S.C. 11301 on _____, 2004, at _____, Recordation No. _____

ROLLING STOCK SECURITY AGREEMENT

This ROLLING STOCK SECURITY AGREEMENT (this "Agreement") dated as of November 30, 2004, between DURANGO & SILVERTON NARROW GAUGE RAILROAD COMPANY, a Colorado corporation, having its principal office at 479 Main Avenue, Durango, Colorado 81301 ("Debtor"), and COLORADO HOUSING AND FINANCE AUTHORITY, a body corporate and political subdivision of the State of Colorado ("Lender"), having its principal office at 1981 Blake Street, Denver, Colorado 80202.

As security for Debtor's obligations pursuant to the Note (defined below) and the other Loan Documents (defined below), and in order to induce Lender to extend or continue to extend credit to Debtor, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Debtor agrees with Lender as follows:

I. DEFINITIONS

A. Specific Terms. In addition to terms defined elsewhere in this Agreement or in any exhibit or amendment hereto or document incorporated herein, when used herein, the following terms shall have the following meanings:

The "Collateral" shall mean the Rolling Stock, together with all parts thereof or therefor (including spare parts), attachments, accessories, accessions, equipment, appurtenances and additions that are appertaining, attached, affixed or related thereto and all substitutions, renewals or replacements thereof and all additions, improvements, accessions and accumulations thereto, all books and records (including computer records) in any way related thereto, and all proceeds thereof.

The "Collateral Location" shall mean the location, premises, rights-of-way, easements, land and property of Debtor, including all track, buildings, sheds and storage areas ordinarily used by the Railroad.

The "Loan Agreement" shall mean the "Loan Agreement" dated even date herewith between Debtor and Lender.

The "Loan Documents" shall have the meaning set forth in the Loan Agreement.

The "Note" shall mean the Promissory Note of even date herewith executed by Debtor in favor of Lender.

The "Railroad" shall mean the Durango & Silverton Narrow Gauge Railroad located in San Juan and La Plata Counties, Colorado.

The "Rolling Stock" shall mean the railcars, engines and other rolling stock or equipment described on Exhibit A attached hereto and all other rolling stock of Debtor, whether now owned or hereafter acquired and wherever located.

The "Secured Obligations" shall have the meaning set forth in the Loan Agreement.

B. Other Terms. Except as otherwise defined herein, all capitalized terms used in this Agreement which are defined in the Uniform Commercial Code of the State of Colorado ("UCC") shall have the meanings set forth in the UCC.

II. GRANTING CLAUSE

To secure payment and performance of the Secured Obligations, Debtor hereby pledges, assigns, transfers and sets over to Lender, and grants to Lender a lien and security interest in and upon all of the Collateral.

III. REPRESENTATIONS AND WARRANTIES

Debtor hereby represents and warrants to Lender that:

A. Debtor is in compliance with all laws, rules and regulations of all jurisdictions in which its operations involving the Collateral may extend, including, without limitation, any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Collateral. Debtor is not subject to the interchange rules of the United States Department of Transportation or Surface Transportation Board. In the event that any such laws, rules and regulations affect title, operation, maintenance or use of the Collateral, or such laws, rules or regulations require any alteration, replacement or addition of or to any equipment, Debtor will conform therewith at its own expense.

B. Debtor is the sole and absolute owner of the Collateral free and clear of any and all liens, claims and encumbrances of every kind and nature except for the lien and encumbrance hereby granted and created and liens permitted by this Agreement or the Loan Documents.

C. Upon appropriate filings with the United States Surface Transportation Board and the Colorado Secretary of State, the security interest contemplated hereby will at all times constitute a valid, perfected and enforceable not less than first priority security interest in favor of Lender, subject to no other security interest, mortgage, lien or encumbrance.

D. No portion of the Collateral is in the possession of any party other than Debtor asserting any claim thereto or security interest therein. Exhibit A hereto contains a full and complete list and accurate description of all Rolling Stock now owned by Debtor.

IV. COVENANTS AND AGREEMENTS

Debtor hereby covenants and agrees with Lender that:

A. Operation. Debtor shall at all times during the term hereof maintain exclusive possession, control and use of the Collateral and shall completely assume all responsibility with respect thereto. Debtor shall cause the Rolling Stock to be operated only by safe, careful and licensed engineers who are employed by Debtor or who are contracted for by Debtor pursuant to any contract or employment arrangement which has been approved by Lender. Debtor shall require each such engineer to operate such train with reasonable care and to use every reasonable precaution to prevent any loss or damage thereto from fire, theft, collision, or otherwise, and to prevent injury to persons or damage to property. Debtor shall further comply with all applicable federal and state inspection, licensing and registration requirements, and all other federal, state and local laws, regulations and other governmental requirements applicable to any portion of the Collateral or the use or operation thereof. Debtor shall not use the Collateral in any manner which is in violation of any provision of any insurance policy. Debtor shall not, without the prior written consent of Lender, attach or affix any portion of the Collateral in any manner to or have any portion of the Collateral become a part of any real estate or to any personal property.

B. Location/Inspection. Debtor shall cause all of the Collateral to at all times be located at the Collateral Location, and shall provide to Lender, from time to time, upon request of Lender, a list of the items of Collateral specifying the physical location and condition of each material item. Lender may examine and inspect the Collateral or any part thereof, wherever located, at any reasonable time or times.

C. Identification of Collateral. Debtor shall take reasonable steps to cause the Collateral to be kept numbered with identification numbers as shall be set forth in this Agreement, or any amendment or supplement hereto. Debtor will not change the identification, number of any unit of Collateral unless and until (1) a statement of a new number or numbers to be substituted therefore shall have been filed with Lender and filed, recorded and deposited, by Debtor with all public offices where this Agreement shall have been filed, recorded and deposited, and (2) Debtor shall have furnished to Lender an opinion of counsel in form and substance reasonably satisfactory to Lender to the effect that such statement has been so filed, recorded and deposited, that such filing, recordation and deposit will protect Lender's interest in such Collateral and that no other filing, recording, deposit or giving of notice with or to any other Federal, State or local government or agency thereof is necessary to protect the interest of Lender in such Collateral (other than UCC Financing Statements to be filed with the Colorado Secretary of State and the records of La Plata County and San Juan County, Colorado).

D. Liens. Debtor shall not create or permit to exist any lien, encumbrance or security interest upon or with respect to any portion of the Collateral now owned or hereafter acquired, in favor of anyone other than Lender, and Debtor will defend the Collateral against all claims and demands of all persons at any time otherwise claiming the same or any interest therein. Debtor shall further perform any and all acts reasonably requested by Lender to establish, perfect, maintain and continue Lender's security interests and liens upon the Collateral, including, but not limited to: (i) executing financing statements, documents or certificates of title

and any and all other instruments and documents (including, without limitation, any instruments to be filed with the Surface Transportation Board) when and as reasonably requested by Lender; and (ii) causing the owners and/or mortgagees of the real property on which any Collateral may be located to execute and deliver to Lender waivers or subordinations satisfactory to Lender with respect to any rights in such Collateral.

E. Alterations and Maintenance. Except upon the prior written consent of Lender, Debtor shall not make or permit any material alterations to any portion of the Collateral which might reduce or impair its market value or utility. Debtor shall at all times keep the Collateral in first class mechanical condition, ordinary wear and tear excepted and excepting any loss, damage or destruction that is fully covered by proceeds of insurance. Debtor shall pay or cause to be paid all obligations arising from the repair and maintenance of such Collateral, as well as all obligations with respect to the premises where any portion of the Collateral is or may be located, except for any such obligations being contested by Debtor in good faith by appropriate proceedings being diligently conducted and for which adequate reserves in form and amount acceptable to Lender have been provided. Without limiting the foregoing, Debtor shall, at its sole cost and expense, make all repairs and replacements to each item of the Collateral as may be necessary to: (i) keep and maintain such item in all respects in first-class mechanical condition and repair; and (ii) comply with all applicable federal, state and local laws and other governmental requirements.

F. Taxes. Debtor shall pay promptly and in every case prior to becoming delinquent all taxes and assessments on or relating to the Collateral, or for its use or operation, or upon this Agreement or any of the Secured Obligations, or with respect to the perfection of any security interest or other lien hereunder (except as otherwise required by law); provided, however, that Debtor shall not be required to pay any such tax or assessment the payment of which is being contested in good faith and by appropriate proceedings being diligently conducted and for which adequate reserves in form and amount acceptable to Lender have been provided, except that Debtor shall cause: (i) to be paid all taxes and assessments upon the commencement of proceedings to foreclose upon any lien on the Collateral unless such foreclosure is stayed by the filing of an appropriate bond; and (ii) any arrest, seizure, levy, custody of or other detainer of any portion of the Collateral to be released within ten (10) days by filing an appropriate bond or undertaking or by securing such discharge or release by stipulation or otherwise, and Debtor shall execute and deliver to Lender, on demand, appropriate certificates attesting to the payment or deposit thereof.

G. Insurance. Debtor shall, at all times, keep all of the Collateral insured against loss, damage, theft and other risks, by maintaining policies in such amounts and with companies and under such policies and in such form, all as shall be reasonably acceptable to Lender. Debtor shall cause such insurance policies to be written with loss payable clauses providing in effect that the proceeds of any such insurance policy paid on account of any loss shall be paid to Lender, which proceeds shall be disbursed by Lender to Debtor for repair, restoration or replacement of the damaged or lost property or applied by Lender as provided in Section IV.H below. Debtor shall maintain such other insurance as may be required by law. Debtor shall furnish Lender with a copy or certificate of each such policy or policies and, at least thirty (30) days prior to any expiration, modification or cancellation, each renewal or replacement thereof. Debtor will, upon request of Lender, deposit with Lender monthly an

amount deemed by Lender to be sufficient to accumulate by the date which is two (2) months prior to the next date for payment of premiums on all required insurance policies sufficient funds to pay such premiums when due. Funds deposited to pay insurance premiums shall not bear interest. Debtor hereby grants to Lender, as additional security for payment of the Secured Obligations and observance and performance of the Secured Obligations, a security interest in such deposit. If the funds deposited hereunder are not sufficient to pay the premiums on all required insurance when the same shall become due and payable, Debtor shall immediately, upon demand, deposit with Lender the full amount of any such deficiency. If there is an Event of Default under this Agreement or any of the other Loan Documents, Lender may apply at any time the balances then remaining of such deposits against the Secured Obligations. No such application of funds shall be deemed to cure any default hereunder.

H. Event of Loss.

(i) During the continuance of any Event of Default, and in the case of any loss covered by policies of insurance for which the cost of restoration or replacement exceeds \$50,000.00 ("Major Loss"), Lender is hereby authorized at its option, either to: (a) settle and adjust any claim under such policies in conjunction with Debtor, or (b) allow Debtor to agree with the insurance company or companies on the amount to be paid upon the loss; provided, that Lender shall, and is hereby authorized to, collect and receipt for any such insurance proceeds; and the expenses incurred by Lender in the adjustment and collection of insurance proceeds shall be additional Secured Obligations, together with interest at the default rate provided in the Note (the "Default Rate"), and shall be reimbursed to Lender on demand.

(ii) In the event of any insured damage to or destruction of the Collateral or any part thereof that constitutes a Major Loss, Lender, subject to applicable law, may apply the proceeds of insurance to the Secured Obligations, in such order or manner as Lender may elect, or may, upon request of the Debtor, elect to disburse the proceeds of insurance to the Debtor for the purpose of restoring, repairing, replacing or rebuilding the Real Property or any part thereof. In the event Lender elects to disburse insurance proceeds for a Major Loss to Debtor for the purpose of restoring, repairing, replacing or rebuilding the Real Property or any part thereof, Debtor shall forthwith commence and diligently prosecute such restoring, repairing, replacing or rebuilding; provided, however, that Debtor shall first pay or deposit with Lender all costs of such restoring, repairing, replacing or rebuilding in excess of the proceeds of insurance before any such proceeds are released by the Lender. Notwithstanding the foregoing, so long as no Event of Default exists under this Agreement or any other Loan Document, and provided (a) the insurer does not deny liability as to the insureds, (b) Lender determines that the insurance proceeds (together with any sums deposited by Debtor with Lender for such purpose) are adequate to complete the repair and restoration of the Collateral, and (c) such repair and restoration can be completed by a date which is not less than twelve (12) months prior to the maturity of the Note, then insurance proceeds, after deducting expenses incurred in collection, shall be made available to Debtor under the conditions and subject to such reasonable disbursement requirements as may be specified by Lender for the lien-free restoration or replacement of the Collateral to a condition of at least equal value and utility as prior to such damage or destruction (including, without

limitation, satisfactory evidence of cost, payment, value and utility as Lender may reasonably require and approve).

(iii) In the event of any insured damage to or destruction of the Collateral or any part thereof that does not constitute a Major Loss, so long as no Event of Default exists under this Agreement or any other Loan Document, the insurance proceeds related to such damage or destruction shall be made available to Debtor for purposes of repairing or replacing the applicable Collateral. Debtor shall provide certification to Lender of the application of such proceeds to such repairs or replacement promptly upon their completion.

I. Notice of Certain Events. Debtor shall give Lender prompt notice of any attachment, lien, judicial process, encumbrance or claim affecting, or any other event which may materially adversely impact any Collateral, and any material casualty to or material accident involving any portion of the Collateral, whether or not constituting an insurable loss provided for in Section IV.G or IV.H above.

J. Hazardous Cargo. Debtor shall not use the Collateral, or permit it to be used, for the transportation or storage of any substance which is categorized as or required to be labeled as, "Poison" or "Poisonous", "Explosive" or "Radioactive" (or any categories or labels substituted for such categories or labels as in effect on the day hereof) or under 49 C.F.R.171 or other applicable federal, state or local rules or regulations in effect from time to time regulating the transportation of hazardous materials.

K. General Indemnity. Debtor hereby agrees to indemnify, pay and hold Lender and the officers, directors, employees, agents and affiliates of Lender and any such holder (collectively, the "Indemnitees") harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, reasonable attorneys' fees, costs, expenses and disbursements for such Indemnitees in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitees shall be designated a party thereto), that may be imposed on, incurred by or asserted against the Indemnitees, in any manner relating to or arising out of this Agreement, the Note, the Loan Documents or any other agreement, document or instrument executed and delivered by Debtor in connection herewith or therewith, (collectively, the "indemnified liabilities"); provided that Debtor shall have no obligation to an Indemnitee hereunder with respect to indemnified liabilities arising from the gross negligence or willful misconduct of that Indemnitee as determined by a court of competent jurisdiction in a final, non-appealable order. To the extent that the undertaking to indemnify, pay and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, Debtor shall contribute the maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all indemnified liabilities incurred by the Indemnitees or any of them. The provisions of the undertakings and indemnification set out in this Section IV.K shall survive satisfaction and payment of, the Secured Obligations and the termination of this Agreement.

L. Lender's Right to Cure. Debtor will allow Lender, at its option, from time to time, to perform any agreement of Debtor hereunder which Debtor shall fail to perform and take any other action which Lender deems necessary for the maintenance or preservation of any portion of the Collateral or its interest therein (including, without limitation, the discharge of taxes, except as such taxes are being contested in good faith as permitted by Section IV.F above, or liens, encumbrances or claims of any kind upon or against any of the Collateral or the procurement of insurance or the payment of warehousing charges, landlord's bills or other charges), and Debtor agrees to forthwith reimburse Lender for all costs and expenses incurred by Lender in connection with the foregoing, together with interest thereon at the Default Rate. Lender may for the foregoing purposes act in its own name or that of Debtor and may also so act for the purposes of adjusting, settling or, upon the occurrence and continuation of an Event of Default hereunder or under any other Loan Document, canceling any policy of insurance on the Collateral or endorsing any draft received in connection therewith in payment of a loss or otherwise, for all of which purposes Debtor hereby grants to Lender its power of attorney, which is coupled with an interest and is irrevocable during the term of this Agreement. In the event Lender, in its sole discretion, undertakes any action under this Section IV.L at any time or from time to time, Lender shall be under no obligation to undertake any such action on any subsequent occasion, and Lender shall not be required to provide Debtor or any other Person with any notice in order for Lender to take any action hereunder or notice of Lender's intent not to take any action hereunder at any time or from time to time.

V. DEFAULTS AND REMEDIES

Upon the occurrence of any one of the following defaults, which are herein referred to as Events of Default:

A. Debtor shall fail to make any payment of any of the Secured Obligations when due, whether by reason of demand, maturity, acceleration or otherwise, and any applicable grace period shall have expired; or

B. Any representation, warranty, certification or statement of Debtor made in this Agreement, in the Loan Documents or in any certificate, financial statement, other agreement, instrument or statement furnished or made or delivered pursuant hereto or thereto or in connection herewith or therewith, is false or misleading in any material respect as of the date when made, effected, affirmed or reaffirmed; or

C. Debtor shall fail to perform or observe, when required, any term, covenant or provision contained in this Agreement and such failure shall have continued for a period of ten (10) days after Debtor's receipt of notice of such failure from Beneficiary; or

D. Any "Event of Default" or "Default" (as defined therein) shall occur under or within the meaning of any of the other Loan Documents.

then and in each such event:

(i) Lender may declare all the principal of, all of the interest on and all other amounts included in or payable pursuant to the Secured Obligations of Debtor to Lender to be forthwith due and payable, whereupon all such indebtedness, liabilities and

other obligations shall become forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Debtor;

(ii) Whether or not such indebtedness, liabilities or other obligations are declared to be forthwith due and payable, Lender shall have the right to take immediate possession of all or any part of the Collateral covered hereby, and, for that purpose Lender may reasonably require Debtor to assemble the Collateral at a time and location specified by Lender, may pursue the Collateral wherever it may be found, and may enter upon any of the premises of Debtor with or without force or process of law, wherever the Collateral may be or is expected or supposed to be, and search for the same, and, if found, take possession of and remove and sell, transfer, assign and dispose of said Collateral, or any part thereof; and

(iii) Lender may exercise any one or more of the rights and remedies accruing to a secured party under the UCC, as defined herein, or the Uniform Commercial Code of any other relevant state or states and any other applicable law upon default by a debtor.

E. Foreclosure. Foreclosure on the Collateral covered hereby may be had at public or private sale or sales, disposing of such portion or portions of the Collateral at each such sale, for cash or on credit, on such terms, at such place or places, and with or without the Collateral being present at such sale, all as Lender in its sole and absolute discretion shall determine from time to time. In the case of public sale, notice thereof shall be deemed and held to be adequate and reasonable if such notice shall appear three (3) times in a newspaper of general circulation in the city or county wherein the sale is to be held, the first such publication being at least ten (10) days before such sale and the last such publication being not more than three (3) days before such sale. In the case of a private sale, notice thereof shall be deemed and held to be adequate and reasonable if such notice shall be mailed to Debtor at its last known address at least ten (10) days before such sale. The enumeration of these methods of notice shall not be deemed or construed to render unreasonable any other method of notice which would otherwise be reasonable under the circumstances.

F. Application of Proceeds and Deficiency. Lender may apply the net proceeds of any sale, lease or other disposition of the Collateral, after deducting all costs and expenses of every kind incurred therein or incidental to the retaking, holding, preparing for sale, selling, leasing or the like of the Collateral on Debtor's premises, or elsewhere, or in any way related to Lender's rights thereunder (including, without limitation, attorneys' fees and expenses, court costs, bonds and other legal expenses, insurance, security guard and alarm expenses incurred in connection with the holding of the Collateral, advertisements of sale of the Collateral, and rental and utilities expense on the premises or elsewhere in connection with storage and sale of the Collateral) to the payment, in whole or in part, of the Secured Obligations of Debtor to Lender, whether due or not due, absolute or contingent, and only after payment of the foregoing amounts and payments by Lender of any other amounts required by any existing or future provision of law (including the UCC or any similar applicable statutory provision of any jurisdiction in which any of the Collateral may at the time be located) need Lender account to Debtor for the surplus, if any. Debtor shall remain liable to Lender for the payment of any deficiency, with interest.

G. Lender's Care of Collateral. Lender shall be deemed to have exercised reasonable care in the custody and preservation of any portion of the Collateral in its possession if it takes such action for that purpose as Debtor requests in writing, but failure of Lender to comply with any such request shall not of itself be deemed a failure to exercise reasonable care, and no failure of Lender to preserve or protect any rights with respect to such portion of the Collateral against prior parties, or to do any act with respect to the preservation of such portion of the Collateral not so requested by Debtor, shall be deemed a failure to exercise reasonable care in the custody or preservation of such Collateral.

VI. MISCELLANEOUS

A. Amendments; Waivers Remedies Cumulative. No delay or failure on the part of Lender in the exercise of, and no course of dealing with respect to, any right hereunder shall operate as a waiver thereof and no single or partial exercise by Lender of any right shall preclude other or further exercise thereof or the exercise of any other right hereunder, under the Note or any of the other Loan Documents or applicable law. A waiver by Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Lender would have on any future occasion. Each and every right granted to Lender hereunder, under the Note and other Loan Documents or any other instrument, document or agreement, or at law or in equity, shall be deemed cumulative and may be exercised from time to time. Neither this Agreement, nor any provision hereof, may be waived, modified, supplemented, amended, rescinded, discharged or terminated except by a writing duly signed by Lender, and then only to the extent therein set forth. In the event of a conflict between the terms of this Agreement and the other Loan Documents, the terms which grant the greatest protection and collateral position to the Lender shall control.

B. Durable Power of Attorney. Debtor hereby makes, constitutes and appoints Lender the true and lawful agent and attorney-in-fact of Debtor with full power of substitution to do any and all things necessary and take such action in the name and on behalf of Debtor to carry out the intent of this Agreement, including, without limitation, the grant of the security interest granted under this Agreement, to perfect and protect the security interest granted to Lender in respect to the Collateral and Lender's rights created under this Agreement and to act on behalf of Debtor for the purposes set forth in Section IV.L, which power of attorney is irrevocable during the term of this Agreement. Debtor agrees that neither Lender nor any of its employees, agents, designees or attorneys-in-fact will be liable for any acts or omissions to act, or for any error of judgment or mistake of fact or law in respect to the exercise of the power of attorney granted under this Section or the exercise of any power of attorney provided for under this Agreement. This power of attorney shall not be affected by the subsequent dissolution of Debtor and shall in all respects constitute a durable power of attorney.

C. Notices. Any notice required to be given to any party pursuant to any provision of this Agreement shall be given as set forth in the Deeds of Trust.

D. Applicable Law and Severability. It is the intention of the parties hereto that this Agreement is entered into pursuant to the provisions of the UCC. Any applicable provisions of the UCC, not specifically included herein, shall be deemed a part of this Agreement in the same manner as if set forth herein at length; and any provisions of this

Agreement that might in any manner be in conflict with any provision of the UCC shall be deemed to be modified so as not to be inconsistent with the UCC, and to that extent the provisions hereof shall be severable and the invalidity of one shall not invalidate another. In all respects this Agreement and all transactions, assignments and transfers hereunder, and all the rights of the parties shall be governed as to the validity, construction, enforcement and in all other respects by the laws of the State of Colorado as applied to agreements made, executed and performed within the State of Colorado. To the extent any provision of this Agreement is not enforceable under applicable law, such provision shall be deemed null and void and shall have no effect on the remaining portions of this Agreement. The headings of the paragraphs hereof shall not be considered in the construction or interpretation of this Agreement.

E. Successors and Assigns. This Agreement shall be binding upon Debtor and its successors and permitted assigns, and shall inure to the benefit of Lender and its successors and assigns. Debtor may not assign or delegate any of its rights or obligations under this Agreement without the prior written consent of Lender.

F. Other Secured Obligations. Nothing contained in this Agreement shall be deemed or held to impair or limit in any way the enforcement of the terms of any instrument evidencing any indebtedness, liability or other obligation of Debtor to Lender.

G. Duration of Security Interest. This Agreement shall continue in full force and effect, and the security interest granted hereby and the representations, warranties, covenants, agreements, and liabilities of Debtor hereunder and all the terms, conditions, and provisions hereof relating thereto shall continue to be fully operative until Debtor shall pay or cause to be paid or otherwise discharge all of the Secured Obligations of Debtor to Lender. Debtor expressly agrees that, to the extent any payments to Lender are subsequently in whole or in part invalidated, declared to be void or voidable, set aside and are required to be repaid to a trustee, custodian, receiver, or any other party under any bankruptcy act, state or federal law, common law or equitable cause, then to the extent of such payment or repayment, the obligation or part thereof intended to be satisfied by any such payments with all applicable portions of this Agreement (if this Agreement shall have terminated) shall be revived and continued in full force and effect as if such payments had not been made.

H. Costs, Expenses and Taxes. Debtor agrees to pay all reasonable fees and out-of-pocket expenses of Lender (including, but not limited to, fees and expenses of counsel and auditors) in connection with the administration and enforcement of this Agreement. In addition, Debtor shall pay or reimburse Lender for any and all costs and expenses incidental to or incurred in connection with the execution, delivery and/or recording of this Agreement or any financing statement in connection herewith and the perfection, maintenance or termination of the security interest granted hereby, including any filing and recording fees, fees for obtaining and transferring certificates of ownership or title and all taxes and legal and clerical fees and expenses paid or incurred by Lender in connection with any of the foregoing. If any suit or proceeding arising from any of the foregoing is brought against Lender, then in such case Debtor to the extent and in such manner as directed by Lender, shall resist and defend such suit or proceeding with counsel approved by Lender. The obligations of Debtor under this paragraph shall survive the expiration or termination of this Agreement and the discharge of the

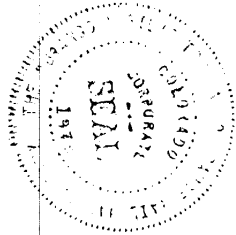
Secured Obligations and any other obligations of Debtor to Lender or otherwise in connection therewith.

I. Further Assurances. Debtor agrees to do such further acts and things and to execute and deliver to Lender such additional agreements, instruments and documents as Lender may reasonably require or deem advisable to carry into effect the purposes of this Agreement, or to conform unto Lender its rights, powers and remedies under this Agreement.

J. Jurisdiction; Waiver; Acknowledgment. (i) DEBTOR ACKNOWLEDGES THAT THIS AGREEMENT IS BEING ACCEPTED BY LENDER IN PARTIAL CONSIDERATION OF LENDER'S RIGHT AND OPTION, IN ITS SOLE DISCRETION, TO ENFORCE THIS AGREEMENT IN EITHER THE STATE OF COLORADO OR IN ANY OTHER JURISDICTION WHERE DEBTOR OR ANY COLLATERAL MAY BE LOCATED. IF SO ELECTED BY LENDER, DEBTOR CONSENTS TO JURISDICTION IN THE STATE OF COLORADO AND VENUE IN ANY STATE OR FEDERAL COURT IN THE STATE OF COLORADO FOR SUCH PURPOSES, AND DEBTOR WAIVES ANY AND ALL RIGHTS TO CONTEST SAID JURISDICTION AND VENUE. DEBTOR WAIVES ANY RIGHTS TO COMMENCE ANY ACTION AGAINST LENDER IN ANY JURISDICTION EXCEPT IN THE STATE OF COLORADO; (ii) DEBTOR ACKNOWLEDGES THAT IT HAS READ THIS AGREEMENT, UNDERSTANDS ITS TERMS AND CONDITIONS AND CONSENTS AND AGREES TO ALL OF THEM.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.



DURANGO & SILVERTON NARROW GAUGE RAILROAD
COMPANY, a Colorado corporation

By: *Allen C. Harper*
Name: Allen C. Harper
Title: President

COLORADO HOUSING AND FINANCE AUTHORITY, a body
corporate and political subdivision of the State of Colorado

By: *Thomas E. Hemmings*
Name: Thomas E. Hemmings
Title: Chief Financial Officer

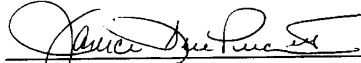
STATE OF COLORADO)
COUNTY OF LAPLATA) ss.

The foregoing instrument was acknowledged before me this 30th day of NOVEMBER, 2004, by Allen C. Harper, as President of DURANGO & SILVERTON NARROW GAUGE RAILROAD, a Colorado corporation.

Witness my hand and official seal.

My commission expires:

8-10-2005



Notary Public

Janice Sue Puckett

Typed, printed or stamped name of Notary Public



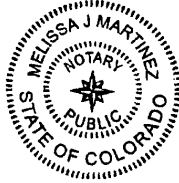
STATE OF Colorado)
) ss.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me this 29th day of November, 2004, by Thomas E. Hemmings, as Chief Financial Officer of COLORADO HOUSING AND FINANCE AUTHORITY, a body corporate and political subdivision of the State of Colorado.

Witness my hand and official seal.

My commission expires:

3/25/06



Melissa J. Martinez
Notary Public

Melissa J. Martinez
Typed, printed or stamped name of Notary Public

ROLLING STOCK EQUIPMENT

<u>Status</u>	<u>ar Numb</u>	<u>Type</u>	<u>I.D. Name</u>	<u>Year Built</u>
In Service	3134	Box Car	Fire Fighting (tanks & pumps)	1903
In Service	3275	Box Car	Fire Fighting (tanks & pumps)	1903
In Service	3631	Box Car	Fire Fighting (tanks & pumps)	1904
In Service	3749	Box Car	Back Pack Box Car	1904
In Service	W0473 n	Tank Car	Pumps, in service	
In Service	W0474 n	Tank Car	Pumps, in service	
In Service	500	Cab/Caboose		
In Service	505	Cab/Caboose		
In Service	540	Cab/Caboose		
In Service	400	Open Air	Gondola	
In Service	401	Open Air	Gondola	
In Service	402	Open Air	Gondola	
In Service	403	Open Air	Gondola	
In Service	404	Open Air	Gondola	
In Service	405	Open Air	Gondola	
In Service	406	Open Air	Gondola	
In Service	407	Open Air	Gondola	
In Service	408	Open Air	Gondola	
In Service	409	Open Air	Gondola	
In Service	411	Open Air	Gondola	
In Service	412	Open Air	Gondola	
In Service	413	Open Air	Gondola	
In Service	414	Open Air	Gondola	
In Service	415	Open Air	Gondola	
In Service	416	Open Air	Gondola	
In Service	313	Open Air	Gondola	
In Service	126	Baggage/Rpo	Concession	1883
In Service	212	Baggage	Concession	1879
In Service	556	Baggage	Concession	1882
In Service	64	Baggage	Concession	1889
In Service	213	Handicap Car	Home Ranch	1983
In Service	257	Coach Car	Shenandoah	1880
In Service	270	Coach Car	Pinkerton	1880
In Service	291	Coach Car	King Mine	1881
In Service	311	Coach Car	McPhee	1881
In Service	312	Coach Car	Silverton	1887
In Service	319	Coach Car	Needleton	1882
In Service	323	Coach Car	Animas City	1887
In Service	327	Coach Car	Durango	1887
In Service	330	Coach Car	Cascade	1963
In Service	331	Coach Car	Trimble	1963
In Service	332	Coach Car	La Plata	1964
In Service	333	Coach Car	Tacoma	1964
In Service	334	Coach Car	Hermosa	1964
In Service	335	Coach Car	Elk Park	1964
In Service	336	Coach Car	Rockwood	1964
In Service	337	Coach Car	San Juan	1964
In Service	630	Coach Car	Hunt	1984

<u>Status</u>	<u>car Numb</u>	<u>Type</u>	<u>I.D. Name</u>	<u>Year Built</u>
In Service	631	Coach Car	Northsatr	1985
In Service	632	Coach Car	Teft	1985
In Service	350	Parlor Car	Alamosa	1880
In Service	B-2	Business Car	Cinco Animas	1883
In Service	B-3	Business Car	Nomad	1878
In Service	B-7	Business Car	Gen. Palmer (value not correc)	1880
In Service	3681	Box Car	"Rail Camp"	1904
In Service	6506	Flat Car		
In Service	6508	Flat Car	(Heavy Flat)	1942
In Service	6522	Flat Car		
In Service	6529	Flat Car	(Heavy Flat)	
In Service	6535	Flat Car		
In Service	6539	Flat Car		
In Service	9325	Hopper Car	Steel body/ E. Broad Top	
In Service	9326	Hopper Car	Steel body/ E. Broad Top	
In Service	9327	Hopper Car	Steel body/ E. Broad Top	
In Service	9328	Hopper Car	Steel body/ E. Broad Top	
In Service	3453	Box Car	Coach Maintenance	1903
In Service	3551	Box Car	Information Technology	1904
In Service	3653	Box Car	Mail Camp Office (computer etc.)	1904
In Service	6689	Flat Car	Butch Cassidy Car in Museum	
	3000	Box Car		1903
	3002	Box Car		1903
	3005	Box Car	MED (#9) storage	1903
	3063	Box Car		1903
	3097	Box Car		1903
	3102	Box Car		1903
	3200	Box Car		1903
	3214	Box Car		1903
	3245	Box Car		1903
	3302	Box Car		1903
	3315	Box Car		1903
	3340	Box Car		1903
	3343	Box Car	Old coach Maintenance, Now Storage	1903
	3363	Box Car		1903
	3378	Box Car		1903
	3401	Box Car		1903
	3460	Box Car		1903
	3495	Box Car		1903
	3530	Box Car	Brochure Storage (#9)	1903
	3534	Box Car		1904
	3535	Box Car		1904
	3350	Box Car		1904
	3569	Box Car		1904
	3610	Box Car		1904

<u>Status</u>	<u>ar Numb</u>	<u>Type</u>	<u>I.D. Name</u>	<u>Year Built</u>
	3614	Box Car	Reservations Phone Room	1904
	3696	Box Car		1904
	3714	Box Car		1904
	3737	Box Car		1904
	3938	Box Car		1904
	4033	Box Car		1912.06062
	6201	Flat Car		
	6204	Flat Car		
	6503	Flat Car		
	6519	Flat Car	(Heavy Flat)	1942
	6524	Flat Car	(Heavy Flat)	1942
	6531	Flat Car	(Heavy Flat)	
	6573	Flat Car		
	6606	Flat Car		
	6612	Flat Car		
	6616	Flat Car		
	6624	Flat Car		
	6634	Flat Car		
	6635	Flat Car		
	6638	Flat Car		
	6642	Flat Car		
	6643	Flat Car		
	6654	Flat Car		
	6658	Flat Car		
	6659	Flat Car		
	6660	Flat Car		
	6665	Flat Car		
	6668	Flat Car		
	6674	Flat Car		
	6677	Flat Car		
	6683	Flat Car		
	6682	Flat Car		
	6691	Flat Car		
	6694	Flat Car		
	717	Gondola S.D.		
	719	Gondola S.D.		
	733	Gondola S.D.		
	753	Gondola S.D.		
	754	Gondola S.D.		
	777	Gondola S.D.		
	779	Gondola S.D.		
	788	Gondola S.D.		
	789	Gondola S.C.		
	821	Gondola S.D.		
	840	Gondola S.D.		
	858	Gondola S.D.		
	871	Gondola S.D.		
	873	Gondola S.D.		
	882	Gondola S.D.		
	884	Gondola S.D.		
	890	Gondola S.D.		
	No #	Gondola S.D.		
	5591	Stock Car		
	5605	Stock Car		

<u>Status</u>	<u>Car Numb</u>	<u>Type</u>	<u>I.D. Name</u>	<u>Year Built</u>
	5627	Stock Car		
	5695	Stock Car		
	5742	Stock Car		
	5773	Stock Car		
	5827	Stock Car		
	No #	Stock Car		
	39058	Stock Car	Steel w/frame	
	1957	Pipe Gondola		
	1400	Pipe Gondola		
	1754	Pipe Gondola		
	No #	Pipe Gondola		
	460	Immigrant Sleeper		
	470	Tank Car	tender on flat UINTAH water cars	
	442	Section/W ork		
	443	Section/W ork		
	444	Section/W ork		
	496	Section/W ork		
	10145	Section/Work		
	No #	Section/W ork		
	No #	Section/W ork		
	No #	Section/W ork		
	505	Cab/Caboose	Display	
	540	Cab/Caboose		1881
	OF-1	Flanger		
	X119	Baggage/Rpo	Rip Track-Storage	1883
	X66	Baggage/Rpo	Hermosa Office	1889
	X120	Baggage		1883

LOCOMOTIVES

<u>Loco Number</u>	<u>Type</u>	<u>Wheel Arrangement</u>	<u>Class</u>
42	Steam	2-8-0	C-16
473	Steam	2-8-2	K-28
476	Steam	2-8-2	K-28
478	Steam	2-8-2	K-28
480	Steam	2-8-2	K-36
481	Steam	2-8-2	K-36
482	Steam	2-8-2	K-36
486	Steam	2-8-2	K-36
493	Steam	2-8-2	K-37
498	Steam	2-8-2	K-37
R-1	Steam	Railbus	

<u>Number</u>	<u>Type</u>	<u>Description</u>
1	Diesel	East Broadtop
4	Diesel	East Broadtop
5	Diesel	East Broadtop
"Hot Shot"	Diesel	50 Ton
7	Diesel	"Big Al"

CERTIFICATION

I, Robert W. Alvord, attorney licensed to practice in the State of New York and the District of Columbia, do hereby certify under penalty of perjury that I have compared the attached copy with the original thereof and have found the copy to be complete and identical in all respects to the original document.

Dated: _____

12/01/04



Robert W. Alvord